

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 EPG-02 SIL-01 OMB-01 NSC-05 SS-15
STR-04 CEA-01 PA-01 PRS-01 /081 W
-----182046Z 066461 /64
P 181744Z MAY 77
FM MJMEMBASSY LIMA
TO SECSTATE WASHDC PRIORITY 4862

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E.O. 11652: N/A
TAGS: EGEN, EFIN, PE
SUBJECT: UNCERTAINTY OVER ECONOMIC POLICIES OF
NEW FINANCE MINISTER

REF: LIMA 4000

1. REPORTS AND SPECULATION IMMEDIATELY PRECEDING AND
FOLLOWING THE RESIGNATION OF FINANCE MINISTER BARUA
SUGGESTED THAT FORCES WITHIN THE GOP OPPOSED TO THE
PRESENT ECONOMIC TEAM--INCLUDING CENTRAL BANK
PRESIDENT SANTISTEVAN AND HIS STAFF AS WELL AS
BARUA--HAD WON OUT IN THE INTERNAL STRUGGLE OVER
THE GOP'S ECONOMIC POLICY DIRECTION. INDEED, AS
REPORTED REFTEL, ONE NEWSPAPER STATED ON MAY 17
THAT SANTISTEVAN AND SOME OTHER MEMBERS OF THE
CENTRAL BANK BOARD OF DIRECTORS HAD RESIGNED.
SUCH SPECULATION WAS WELL FOUNDED SINCE THE ECONOMIC
STABILIZATION PROGRAM WHICH ALLEGEDLY BROUGHT BARUA INTO
DIRECT CONFRONTATION WITH INDUSTRY MINISTER IBANEZ
O'BRIEN HAD IN FACT ORIGINATED FOR THE MOST PART IN THE
CENTRAL BANK. ANOTHER PREVAILING VIEW WAS THAT BARUA'S
REPLACEMENT, WALTER PIAZZA, HAD BEEN CHOSEN BECAUSE HE
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WOULD BE MORE WILLING TO ACCEDE TO THE DEMANDS OF THE
MILITARY LEADERSHIP OF THE REVOLUTIONARY GOVERNMENT TO
RELAX THE TIGHT MONEY POLICIES OF HIS PREDECESSOR. IF
HIS AIM WAS TO TURN THIS POLICY AROUND, IT WAS ASSUMED
THAT HE WOULD START BY CHOOSING NEW PERSONNEL FOR THE
CENTRAL BANK.

2. HOWEVER, THIS SPECULATION HAS NOT BEEN BORNE OUT BY ANY OFFICIAL CONFIRMATION OF CENTRAL BANK RESIGNATIONS DURING THE COURSE OF THE PAST TWO DAYS. IN FACT, THE STORY IS NOW CIRCULATING (E/C COUNSELOR HEARD IT FROM A LOCAL US BANK REP) THAT PIAZZA CALLED ON SANTISTEVAN ON MAY 17 AND REQUESTED HIM AND HIS STAFF TO WITHDRAW THEIR LETTERS OF RESIGNATION. ACCORDING TO THIS VERSION, PIAZZA TOLD SANTISTEVAN HE WOULD WORK CLOSELY WITH THE CENTRAL BANK TO DEVELOP A REASONABLE ECONOMIC STABILIZATION PROGRAM WHICH WOULD MEET IMF STAND-BY REQUIREMENTS, AND WOULD DO HIS BEST TO GET THE CABINET TO APPROVE IT. LENDING CREDENCE TO THIS REPORT IS FACT THAT TOP ECONOMIST ON SANTISTEVAN'S STAFF INFORMED EMB OFF LATE MAY 17 THAT THE CENTRAL BANK TEAM WOULD STAY ON.

3. COMMENT: OBVIOUSLY THE SITUATION IS STILL UNSETTLED AND WE ARE ATTEMPTING TO LEARN ACTUAL STATE OF AFFAIRS. THERE ARE ELEMENTS WITHIN GOVERNMENT WHO ARE INCLINED TO GIVE WAY TO GROWING PRESSURE FROM BOTH LABOR AND BUSINESS FOR MORE LIBERALIZED, I.E. STIMULATIVE AND PROBABLY INFLATIONARY, ECONOMIC POLICY THAN BARUA'S. THEY WOULD PROBABLY ACCEPT WITH LITTLE REGRET THE CENTRAL BANK TEAM'S RESIGNATION. ON THE OTHER HAND, THERE ARE ALSO MEMBERS OF THE GOVERNMENT (PERHAPS INCLUDING THE PRESIDENT HIMSELF) WHO REALIZE THE NEED FOR AUSTERITY MEASURES ALONG THE LINES THAT BARUA WAS PROMOTING, AND WHO WOULD PREFER THAT PIAZZA WORK WITH A TEAM OF HIGHLY COMPETENT ECONOMISTS. SUCH A TEAM

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WILL UNDOUBTEDLY BE AN IMPORTANT ASSET IF PERU PLANS TO CONTINUE ITS CURRENT EFFORTS TO OBTAIN AN IMF STAND-BY AND/OR GOES ONCE AGAIN TO THE INTERNATIONAL BANKS FOR BALANCE OF PAYMENTS SUPPORT. DEAN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CENTRAL BANK, ECONOMIC RECOVERY, POLICIES, PERSONNEL APPOINTMENTS, GOVERNMENT MINISTRIES, PERSONNEL RESIGNATIONS, POLITICAL SITUATION
Control Number: n/a
Copy: SINGLE
Sent Date: 18-May-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977LIMA04071
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770177-0256
Format: TEL
From: LIMA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770545/aaaabmgo.tel
Line Count: 101
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: d7d9e390-c288-dd11-92da-001cc4696bcc
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 77 LIMA 4000
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05-Apr-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2473315
Secure: OPEN
Status: NATIVE
Subject: UNCERTAINTY OVER ECONOMIC POLICIES OF NEW FINANCE MINISTER
TAGS: EGEN, EFIN, PGOV, PE, (PIAZZA TANGUIS, WALTER)
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/d7d9e390-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009